GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1576
ANSWERED ON:09.03.2007
FRAUD IN BANKS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government is aware that cases of frauds in Banks are increasing day by day as reported in the `Dainik Jagran` dated January 19, 2007;

(b) if so, the details thereof and facts of the matter reported therein;

(c) the number of such incidents which have come to light during the last three years and current year, State-wise; and

(d) the effective steps taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b) : Delhi Edition of `Dainik Jagran` dated January 19, 2007 does not contain any news item regarding increase in the cases of frauds in banks day by day. However, a news item regarding fraud played with State Bank of India (SRI) by manipulation in the drafts appeared in `Dainik Jagran` dated January 19, 2007. It relates to defrauding the SBI, Deihi by making alterations in the drafts in five cases.

(c) : The number of fraud cases and amount involved therein as reported by banks to Reserve Bank of India (RBI), during the last three financial years, i.e.: 2003-2004, 2004-2005, 2005-2006 ard upto December 2006 is as under:

(Amount in`Rs. Crores)

	2003-04		2004-05		2005-06		2006-07 (Upto Dec.06)	
	No	Amt.	No.	Amt.	No.	Amt.	(No.	Amt.
Public Sector Banks	2207	653.50	2663	600.16	2557	1111.81	1986	605.37
Private Sector Banks	1326	104.50	4141	158.50	7877	230.93	115041	264.60
Foreign Banks	3320	17.93	3646	20.38	3480	37.91	3897	23.11
TOTAL	6853	775.93	10450	779.04	13914	1380.66	17387	893.12

(d) In the specific case of SB1, Delhi complaint with local police has been lodges and cautionary instructions have been issued to all the Branches in Delhi Circle. RBI, as a part of its supervisoiy responsibility, has been advising banks from time to time about the common fraud prone areas and the measures to be taken by them to prevent/reduce the incidence of frauds/corruption in banks. The measures taken by RBI to strengthen the machinery in banks to prevent/reduce the incidence of frauds include the following:

* RBI directed banks in 1993 to introduce a system of concurrent audit covering branches amounting for 50 percent of business

(deposits pius advances).

* RBI advised banks to constitute Audit Committee of the Board of Directors, with a view to ensuring that the working of internal inspection and audit machinery is monitored at the top most level in banks.

* In order to give a focused attention by the Board on fraud prevention, banks were advised by RBI in the month of January 2004 to constitute a Special Committee of the Board for exclusive monitoring of large value frauds of Rs.1 crore and above.

* RBI has instructed banks to review and refine the systems and procedures with regard to balancing of books, reconciliation of inter-branch accounts, review of the adequacy of the internal inspection/audit machinery and control returns, visit to branches by officials and to ensure that the warning signals do not go unnoticed.

* In view of tho increasing trend of frauds in the housing loans segment, RBI has also taken stops, as stated below, to prevent frauds in this segment:

(i) Banks have been cautioned from time to time against fraudsters and the modus operandi adopted by them.

(ii) RBI has also taken up with State Governments for bringing certain progressive measures such as computerization of immovable property record:} and transactions, recording the encumbrances on the properties mortgaged to the banks with the Registrar of Assurances by payment of a nominal fee as this measure will go a long way in arresting multiple creation of mortgages by the fraudsters so as to prevent occurrence of the frauds in the housing loan segment.
Steps have also been taken to vigorously monitor the large value frauds. All the fraud cases involving amounts of rupees one crore and above are monitored by the Central Ofice of the Department of Banking Supervision, RBI and put up to the Board for Financial Supervision, RBI, on a quarterly basis.Frauds involving amounts of F:s.1 lakh and above but less than Rs.1 crore are monitored by the Regional Offices of RBI.